

VZCZCXRO7651
RR RUEHLA
DE RUEHMD #1095/01 3171607
ZNR UUUUU ZZH
R 131607Z NOV 09
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 1438
INFO RUEHLA/AMCONSUL BARCELONA 4201
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 MADRID 001095

SIPDIS

STATE FOR EUR/WE, EEB/IFD/OMA
COMMERCE FOR 4212/DON CALVERT
TREASURY FOR OAI/OEE R.JOHNSTON
ENERGY FOR PIA:K.BALLOU

E.O. 12958: N/A
TAGS: [EAIR](#) [ECON](#) [EFIN](#) [EINV](#) [KGHG](#) [SP](#)
SUBJECT: MADRID ECONOMIC WEEKLY, NOV. 9-13

REF: A. MADRID 1088
[1](#)B. MADRID 1061

Contents:

EFIN: EC Calls on GOS to Reduce Deficit, Extends Deadline
ECON: Congress Approves Autonomous Community Financing Law
ECON: Official Q3 GDP and October Inflation Figures
KGHG: Spain to Purchase 25 million Euros of Greenhouse Gas
Emission Permits from Poland
EAIR/EINV: Iberia and British Airways Agree on Merger Terms
EFIN: Insurance Firms Fined 121 Million Euros for Price-Fixing

EC Calls on GOS to Reduce Deficit, Extends Deadline

1.(U) European Commissioner for Economic and Monetary Affairs Joaquin Almunia agreed November 9 to give Spain (along with some other countries) until 2013 to reduce its budget deficit to 3% of GDP, an extension from the original deadline of [1](#)2012. Almunia cited Spain,s commitment to reducing spending and managing its deficit amidst the economic crisis. The European Commission confirmed that beginning in 2010 Spain should reduce its deficit by 1.75% of GDP each year to ensure that the deficit is below 3% by 2013. Second Vice President and Minister of Economy and Finance Elena Salgado expressed confidence that Spain would be able to gradually reduce the deficit by the extended deadline. The EC also urged Spain to advance with structural reforms on health insurance and pension spending, called for greater support and financial discipline from autonomous communities and local governments, and cautioned against Spain,s rising public debt. Comment: Meeting the 3% requirement will be a challenge for Spain. Its deficit for 2009 is likely to be well over 10% of GDP, meaning that the annual reduction will have to be even greater than the 1.75% called for by the EC. (All Media, 11/10)

Congress Approves Autonomous Community Financing Law

2.(U) Bringing an end to an issue that had been controversial for two years, the Congress barely approved on November 11 changes to central government financing of autonomous community (regional) governments. The new system will give the communities more funds and make several adjustments based on the size, population, etc. of each community. It was originally motivated by Catalans' assertions that the old system did not give their region an appropriate share of total GOS revenues. The law garnered exactly the requisite 176 votes, including the ruling PSOE and five small parties. The support of both small Navarra parties was crucial; ironically, Navarra has its own financing regime and so is not affected by the reform. (El Pais, 11/12; ABC, 11/13)

Official Q3 GDP and October Inflation Figures

3.(U) National Statistics Institute (INE) figures showed the economy contracted by 0.3% in the year's third quarter, bringing production 4.0% below its third-quarter 2008 level. The INE also reported that consumer prices rose by 0.7% in October, bringing prices to 0.7% below their October 2008 level. These figures are nearly identical to preliminary figures announced by the Bank of Spain (GDP) and INE (inflation) two weeks ago. (Europa Press, 11/12-13)

Spain to Purchase 25 million Euros of Greenhouse Gas Emission Permits from Poland

4.(U) At President Zapatero's November 9 meeting with Polish PM Tusk, the GOS agreed to purchase 25 million Euros of excess greenhouse gas emissions permits from Poland in order to meet its Kyoto Protocol obligations. Tusk said the funds would be invested in the lowering of CO2 emissions and in the development of Polish energy efficiency. While this is the first time Poland has sold its emission rights, Spain has purchased from countries including Hungary, Lithuania, and the Czech Republic. Comment: Although Spain's emissions are down because of the recession, they are expected to be well over its Kyoto limit, forcing such purchases of other countries' excess emissions credits. (El Confidencial, 11/9)

Iberia and British Airways Agree on Merger Terms

5.(U) After 16 months of negotiations, Iberia and British Airways (BA) agreed to a merger that would create one of the world's largest airlines. The merger will create the holding

MADRID 00001095 002 OF 002

company "TopCo," which will be incorporated in Spain, though its operating and financial headquarters will be in London. For the first five years of the merger the companies will maintain separate brands, codes, licenses and hubs. BA stockholders will get 55% of the stock in TopCo, and Iberia stockholders will get 45%. The new company's largest single stockholder, with an 11% stake, will be Caja Madrid, which currently owns 23% of Iberia. The pound's devaluation during the economic crisis helped move the negotiations along. In July 2008, when the airlines first announced their intent to merge, BA had a market capitalization nearly twice that of Iberia. As of closing on Thursday, BA was valued at 2.761 billion euros to Iberia's 2.115 billion euros. Still at issue is BA's pension deficit of nearly 3 billion euros. The agreement stipulates that neither Iberia nor TopCo will be liable for the pension plan and gives Iberia the option of backing out if BA does not resolve the situation. The news of the merger comes at a challenging time for Iberia. The Spanish airline reported a net loss of over 16 million euros during the third quarter this year and is facing difficult labor relations, with several strike days planned before the Christmas holidays. The companies expect to close the merger by late 2010. (Iberia/BA Press Release, 11/12; El Pais/WSJ Europe/Financial Times, 11/13)

Insurance Firms Fined 121 Million Euros for Price-Fixing

6.(U) The National Competition Commission (CNC) announced the largest fine in its history: nearly 121 million euros against six insurance companies -- Asefa, Swiss RE, Mapfre, Scor, Muchener, and Caser. The CNC found that, from 2002 to 2007 -- during the height of the construction boom -- the companies colluded to fix prices for the 10-year construction-insurance policies required by Spanish law. The penalty is over twice that of the CNC's second largest fine, 57 million levied against Astel and Telefonica in 2004. (Europa Press, 11/13)

CHACON